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15 July 1986

FROMRichard J. Kerr
Deputy Director for Intelligence

7E44

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SUBJECT

Mexican Political and Financial Situation

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SENT TO:DELIVER TO:EXTENSIONROOM

State

Michael H. Armacost, Under Secretary of State for
Political Affairs

647-2471

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REMARKS: Per our telephone conversation of 14 July, attached is the material
you requested on the Mexican political and financial situation.

14 July 1986

Mexican Elections--Results and Implications

Mexico's ruling Institutional Revolutionary Party (PRI) claimed victory in most contests following the elections held Sunday, 6 July.

--The PRI quickly announced victory in the four gubernatorial elections, including two in states--Chihuahua and Durango--considered strongholds of the opposition National Action Party (PAN).

PRI actions in Chihuahua, viewed by all sides as the most important contest, suggest the ruling party has continued the 1985 policy of "rolling-back" opposition victories in this year's elections. Official results are still incomplete, but the PRI has been declared the winner in 23 of 25 municipalities, including the largest city and capital, formerly held by the PAN.

--On Sunday, the PRI published ads claiming to have retained the governorship of this state while sweeping 66 of 67 towns and all 14 representative seats.

--Previously, the PAN held the 7 largest towns controlling 70 percent of the population in Chihuahua.

--The PAN also made its strongest showing in this state during the midterm congressional elections last July.

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PAN reaction to the election irregularities has thus far been mild, but the potential for violent clashes still exists. The opposition claimed fraud two hours after the polls opened on 6 July and some party leaders continue to threaten more severe reactions.

- The first public protest to denounce fraud came two days after the election. Opposition activists blocked key intersections in Chihuahua City in an attempt to influence official election results before they were announced.
- Last Thursday, two dozen businesses began a 12 hour work stoppage at noon in Chihuahua City to protest election fraud.
- Later that evening, Francisco Barrio, PAN's candidate for governor in Chihuahua, led 10,000 people in a protest of the elections, encouraging them to block roads and boycott certain news media.
- Press reports also indicate between 25,000 and 60,000 supporters of the PAN gathered in Ciudad Juarez on Saturday.
- Durango's town hall was occupied yesterday by 1,000 protesters.
- For two hours early this morning, 10,000 PAN supporters blocked bridges between El Paso and Ciudad Juarez. PAN leaders cautioned followers to neither provoke nor accept violence.

If protests turn violent the government is prepared to meet them with force. Additional military troops were moved into the area in an effort to contain any unrest.



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This year's elections hold serious implications for the PAN, and more generally, all opposition parties. If the PAN is unable to muster an extensive reaction to fraud in its stronghold of Chihuahua, it is unlikely the party will be able to launch an effective challenge elsewhere in Mexico.

- Failure to respond would also signal the PRI that its election techniques, including fraud, are successful.
- In all likelihood, the opposition would continue its role as a weak player in the electoral game, dependent on the ruling party to "allow" the few victories it can win.



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Recent Developments on the Financial Situation

Mexico and the IMF still have not reached agreement on a new program.

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--Late last week, a Mexican negotiating team was dispatched to Washington to resolve the issue.

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--Complicating negotiations is the likelihood that Mexico's 1986 budget deficit already is well above the level considered desirable by the Fund.

Mexico City late last month announced its intent to stimulate economic growth in 1987 and 1988, further complicating negotiations with the IMF and international bankers.

--The government plan calls for economic growth rates of 3 to 4 percent annually over the next two years. increases in public sector investment and imports are expected to be the main catalysts for renewing economic activity.

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--Even with new foreign loans, private US economic forcecasts indicate that Mexico would also have to return to a highly expansionary monetary policy to finance budget overruns to achieve its objective, driving inflation to an annual rate of 200 percent by 1988.

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